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COMPTROLLERSHIP AND THE U. S. NAVAL SUPPLY CORPS

BY

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## INTRODUCTION

With the advent of the McNamara-Hitch team in the Department of Defense, Comptrollership in the Navy merits increased attention. This author makes the assumption that comptrollership is here to stay in one form or another. The total field, however, is much too large for the scope of one thesis, so it is towards the area of the "right man for the job" that this paper will be directed.

Specifically, the question of whether line or supply officers should more appropriately be assigned to financial management duties, will be developed in detail.

Of necessity a modicum of general comptrollership history, development and background must be included in order to determine most effectively the functions to be performed and who shall perform them. Some of the particular questions to be answered are: What is the trend of Naval Comptrollership? Why has the Supply Corps had so little to do with financial management in the field and at Departmental levels? Why was the natural relationship of the Supply Corps to finance disregarded? Are there any existing legal barriers to the expansion of the Supply Corps into all Comptrollership areas? What are the relative qualifications and advantages of line vs. supply corps officers in the financial management area? Is comptrollership tending to negate its effectiveness by reaching for command power instead of providing a staff service?





The methods of research are indicated by the bibliography and include interviews, speeches, books and articles on the subject matter. All memoranda quoted are from Department of Defense files.

The chapter sequence generally follows a chronological order except for the concluding one. Certain appendices have been included for the convenience of the reader, as an aid in matching events with persons and dates.

Other related areas which could be developed at later dates might include the stock fund and industrial fund concepts, totally integrated and simplified accounting systems (efforts to eliminate the "red tape" concept of financial management), and effective uses of comptrollership in periods of war or national emergency.



## CHAPTER I

### DEVELOPMENT OF NAVAL COMPTROLLERSHIP

#### Background

Budgeting with all of its ramifications is one of the major functions of Naval Comptrollership. Thus one might say that comptrollership in the Navy stems from the Budget and Accounting Act of 1921. This act, in addition to creating the Bureau of the Budget and the Comptroller General of the United States, fostered the formation of the Office of Budgets and Reports under the direction of the Secretary of the Navy.<sup>1</sup> So budget preparation and execution in the Naval Establishment was an established function many years prior to the enactment in August, 1949 of Title IV, Public Law 216 of the 81st Congress.

The advent of the Second World War created such a deluge of financial reports and statistics that the military budgeting and accounting systems were unable to cope with the added requirements imposed upon them. As the Under Secretary of the Navy at this time, James V. Forrestal became interested in the problem when he found it virtually impossible to obtain satisfactory program costs or adequate, timely financial information. Forrestal would receive different sets of figures concerning

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<sup>1</sup>U. S. Department of the Navy, Bureau of Naval Personnel, Financial Management in the Navy: Nav Pers 10792-A, 2nd ed., 1962, p. 11.



the identical program, project or operation, from the Bureau of Supplies and Accounts, the Office of Budget and Reports, and the other technical bureaus. He enlisted the aid of Mr. Paul Grady of Price Waterhouse and Co. to try to bring some order out of the existing chaos.<sup>2</sup> And eventually a committee, chaired by Mr. Grady and including the Chief of the Bureau of Supplies and Accounts, Rear Admiral W. B. Young, and Norwood P. Cassidy, Director of Accounting, Bureau of Supplies and Accounts, among others, was formed and charged with making specific recommendations concerning the consolidation and centralization of budgeting and accounting. In mid-1943, this committee recommended that a Comptroller of the Navy be established at the Secretary's level, to be vested with full authority and responsibility for budgeting and accounting throughout the entire Navy. In addition the Comptroller was to maintain close liason with the Director of Budget and Reports concerning the rendition of accounting statements.

This idea, though accepted by Mr. Forrestal, who by now had succeeded Frank Knox as Secretary of the Navy, was not saleable to the Naval bureaus and offices.<sup>3</sup> One reason was the violent objection of the Chief of the Bureau of Supplies and Accounts, Rear Admiral William Brent Young, who maintained that the Naval Comptroller should be placed, not at the Secretarial level, but in the Bureau of Supplies and Accounts. Another, and perhaps more important reason was psychological in nature, in that the term "Comptroller," connoted usurpation of traditional naval

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<sup>2</sup>Interview with Norwood P. Cassidy, former Assistant Naval Comptroller for Accounting and Finance, February 10, 1965.

<sup>3</sup>Norwood P. Cassidy, "Financial Management in the Navy," Speech delivered before the Federal Government Accountants' Association, Los Angeles Chapter, February 13, 1957.



officer management prerogatives, particularly as the prerogatives pertained to the Chief of Naval Operations, his staff, and the Naval Bureau Chiefs. As the Committee investigating financial management in the Department of Defense stated:

The Committee considers it unfortunate that the term Comptroller (Controller) as it is used for officials in the financial management area often leads the uninitiated to the conclusion that the function of a person with this title is to control. The successful Controller does not control in the usual meaning of the term. He does head an organization that has great opportunity to be of service in recording, reviewing, analyzing, and interpreting facts generally expressed in monetary terms. His function and that of his staff is to present the facts in a manner that will aid the commanders or other managers in making sound effective operating and administrative decisions.<sup>4</sup>

Balked in the official formation of a Naval Comptroller organization, Forrestal, undeterred, administratively created the position of Fiscal Director of the Navy and made this official the accounting counterpart of the Director of Budgets and Reports. He was also made responsible for the integration of the accounting system with the budget.<sup>5</sup> Since the budget at this time was the responsibility of a statutory budget officer, a Rear Admiral of the unrestricted line, this integration was indeed a delicate commission.

Mr. Wilfred J. McNeil, a reserve Supply Corps Rear Admiral, resigned his commission and was appointed as the Navy's first fiscal director on 14 December, 1944.<sup>6</sup> Subsequently, with enactment of the

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<sup>4</sup>U. S., Department of Defense, Financial Management in the Department of Defense: the White Report, November, 1964, p. 3-4.

<sup>5</sup>Cassidy, "Financial Management in the Navy."

<sup>6</sup>U. S. Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, Interim Report Implementation of Title IV, National Security Act of 1947 as Amended 83rd Cong., 1st Sess., 1954, p. 151.





National Security Act of 1947, Mr. McNeil became the Assistant Secretary of Defense and later successfully sponsored the bill which was to establish statutory comptrollership for the entire department of Defense, i.e., Title IV of Public Law 261. With the enactment of Title IV, McNeil became the first Comptroller of the Defense Department.

### The Need for a Navy Comptroller

As James Forrestal recognized the need for a formal Navy Comptroller organization in 1944, so Title IV of Public Law 216 statutorily fulfilled this need when enacted in 1949.

The prime mover behind the enactment of Title IV was the Second Hoover Commission which concluded that financial management, or comptrollership was urgently required in the Federal Government, and particularly in the Department of Defense, and stated:

Budgeting and accounting go hand in hand. Sums budgeted in advance are subsequently accounted for as obligated and spent. The activities are the same and the accounts themselves must be the same. Only by making comparisons between similar activities and between the same activity in one year against another year, can efficiency be tested. Only by making the head of each activity financially responsible for all costs of his program, can he be held to account. Only by modernizing the Federal system of budgeting and accounting will it be possible to tell exactly how much any single program or project is costing. The Federal Government must be able to assess results intelligently.<sup>7</sup>

Here it is explicitly recognized that an integration and consolidation of budgeting and accounting functions might provide at least a partial answer to the complicated entanglement of governmental finance.

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<sup>7</sup>U.S. Senate, Financial Management in the Federal Government, Document No. 11, 87th Cong., 1st Sess., 1961, p. 54.



However, the force which propelled this statute into law was the almost unanimous concern of Congress over the state of defense budgeting and accounting. The following portrays their feelings:

Intricate Federal laws compel the businessman to maintain the most modern and accurate accounting systems possible. Yet these laws do not apply to the same Federal Government, nor do we find that modern and accurate fiscal methods are employed in the operation of the Federal Government.

In light of the great advances that have been made in budgetary and accounting techniques, it is appalling to examine the fiscal operation of the Military Establishment and find that the accounting system has been jerrybuilt since the days of George Washington.

Let it be emphasized that . . . there is a tremendous difference between the operations of the Department of Defense and a profit making organization. We do not say that the Department of Defense should be 'run like a business!' It cannot be.

But let it also be stated just as plainly that the money and material entrusted to the Department of Defense must be efficiently used and accurately accounted for. If the American people and their Congress are to be assured both that the military is operating as effectively and economically as possible, and that the decisions they make are reached only after accurate information has been presented to them on the costs of the various programs requested, then we must have accurate fiscal records, inventories and budgetary systems.

Ever since the operations of our military have assumed such large significance in the national budget, there has been a demand for the adoption of more up-to-date businesslike procedures.<sup>8</sup>

Title IV was thus added by Public Law 216 as a new Title to the National Security Act of 1947. Through it, the Department of Defense financial management structure was reorganized. More specifically, Title IV:

1. Provided for the establishment of a Comptroller for the Office of the Secretary of Defense and a Comptroller in each of the three military Departments, in order that there may be an organized effort to carry out these [the promotion of efficiency and economy] objectives.

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<sup>8</sup>U. S. Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, loc. cit., p. 1.



2. Directed that a performance-type budget be adopted by the Department of Defense with a segregation of operating and capital programs.
3. Provided for the establishment of uniform terminologies, classifications, reporting systems, accounting and internal audit projects and common use of disbursing facilities.
4. Authorized the establishment of working capital funds for the organization of inventories for the three military departments into stock funds and for the operation of industrial- and commercial-type activities and integral working units.
5. Authorized the establishment of departmental management funds to facilitate the carrying out of joint and special operations.
6. Provided for reports of property on a quantitative and monetary basis.<sup>9</sup>

After the passage of Public Law 216, Louis A. Johnson, then Secretary of Defense, stated that it: ". . . not only reflects the recommendations of the (Hoover) Commission concerning the National Military Establishment, but it also makes applicable to the National Military Establishment many of the Commission's broad budgeting and accounting recommendations."<sup>10</sup>

To comply with the requirement of this Act, the Secretary established the Office of the Comptroller of the Navy on 1 June 1950 and designated the then Assistant Secretary of the Navy for Air, John F. Floberg, as the first Comptroller of the Navy<sup>5</sup>. In 1954, as a result of congressional legislation, two additional secretaries were provided for each service, and in the case of the Navy, one of the new assistants was to be designated as the Assistant Secretary for Financial Management, and

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<sup>9</sup>Ibid., pp. 75-76.

<sup>10</sup>Ibid., p. 76.





could also act as Comptroller if so designated by the Secretary. The number of assistant secretaries was reduced by the Department of Defense Reorganization Act of 1958 and the Assistant Secretary for Financial Management was one of those eliminated. In 1961, however, the position was reinstated and is currently occupied by the Honorable Victor M. Longstreet.<sup>11</sup>

#### Basic Function of the Military Comptroller

The White Report on Financial Management in the Department of Defense stated that the basic functions of DOD financial management should be as follows:

Budgeting and Funding--the review and translation of programs into financial terms and providing the financing essential to their execution.

Accounting--the classifying, recording and reporting of financial data.

Expenditure and collection of funds--commonly called the finance or disbursing function.

Progress reporting and statistics--the provision and interpretation of data for command and management purposes.

Auditing--review and follow-up on performance and furnishing findings and appropriate recommendations to command and management.<sup>12</sup>

These findings had their precedent in a memorandum from George C. Marshall, Secretary of Defense, to the Secretaries of the Army, Navy and Air Force (see Appendix B). In this memo concerning comptroller (in the Defense Department) functions and organization, Marshall mentions, "budget

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<sup>11</sup>Bureau of Naval Personnel, op. cit., p. 17.

<sup>12</sup>U. S. Department of Defense, Financial Management in the Department of Defense: the White Report, November 1964, p. 6.





administration, cost accounting, accounting for all property, appropriation and fund accounting, disbursing and receiving cash, statistical and progress reporting, and auditing."<sup>13</sup>

Since the civilian comptroller and his military counterpart evolved as their organizations grew in size and complexity, i.e., increases in accounting, increases in size and volume of reports, requirements for more sophisticated management and internal auditing techniques, and additional tax and budget problems, it is not surprising that the traditional functions of the civilian comptroller have been carried over into government.

The official organ of U. S. business controllers, the Controllers' Institute of America has issued the following all-inclusive list of controllership functions:

1. To establish, co-ordinate, and maintain, through authorized management, an integrated plan for the control of operations. Such a plan would provide, to the extent required in the business, cost standards, expense budgets, sales forecasts, profit planning, and programs for capital investment and financing, together with the necessary procedures to effectuate the plan.

2. To measure performance against approved operating plans and standards, and to report and interpret the results of operations to all levels of management. This function includes the design, installation, and maintenance of accounting and cost systems and records, the determination of accounting policy, and the compilation of statistical records as required.

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<sup>13</sup>U. S., Memorandum from the Secretary of Defense to the Secretaries of the Army, Navy and Air Force, Comptroller Functions and Organization. September 27, 1950.



3. To measure and report on the validity of the objectives of the business and on the effectiveness of its policies, organization structure, and procedures in attaining those objectives. This includes consulting with all segments of management responsible for policy or action concerning any phase of the operation of the business as it relates to the performance of this function.

4. To report to government agencies, as required, and to supervise all matters relating to taxes.

5. To interpret and report on the effect of external influences on the attainment of the objectives of the business. This function includes the continuous appraisal of economic and social forces and of governmental influences as they affect the operations of the business.

6. To provide protection for the assets of the business. This function includes establishing and maintaining adequate internal control and auditing and assuring proper insurance coverage.<sup>14</sup>

Brooks Heckert and James Willson distilled this and extracted the following four basic financial management functions as most applicable to the modern-day comptroller:

a) The accounting function, including the corporate, general financial, and cost accounting operations, together with the methods and systems activities embracing the design, installation, and custody of all accounting books, records, and forms, and the co-ordination of the clerical and office systems and facilities throughout the company.

b) The auditing function, including the establishment and maintenance of internal controls, the audit of receipts and disbursements, general internal auditing, and the general relationship with the company's public accountants.

c) The tax function, including the assembly of information and the preparation of returns for income, excise, and payroll taxes, and the general relationship with tax agents and auditors.

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<sup>14</sup>David R. Anderson and Leo A. Schmidt, Practical Comptrollership (Homewood, Ill.: Richard D. Irwin, Inc., 1961), p. 11.



d) The interpretive function, including the preparation, analysis, and statistics to assist the directors, officers, and general management of the company in the formulation of plans and policies, the measurement of results, or for other purposes of internal or external use.<sup>15</sup>

These functions and the additional related one of preparing, consolidating and administering budgets are generally concurred in by such accepted authorities as J. Hugh Jackson, Leo A. Schmidt, and Thornton Bradshaw.<sup>16</sup>

#### Title IV Implementation

Morris Janowitz wrote, "Traditional attitudes are institutionalized by the requirements of military organization and planning. When war-making becomes more technical, the military establishment requires years of preparation and advance thinking. Sudden developments are resisted as disruptive, for it takes years to translate ideas into weapons systems."<sup>17</sup> This quotation aptly depicts the state in which many senior military officers found themselves with regard to this "new" concept of comptrollership. Just prior to the passage of Title IV, Public Law 216, Admiral Louis Denfeld, Chief of Naval Operations at the time--in a letter to the Secretary of the Navy--summed up the prevailing fears of his fellow senior officers. Applicable portions follow:

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<sup>15</sup>Brooks Heckert and James D. Willson, Controllership (New York: The Ronald Press Company, 1952), p. 497.

<sup>16</sup>For additional readings in this area see the bibliography under these authors.

<sup>17</sup>Morris Janowitz, The Professional Soldier (Glencoe, Ill.: The Free Press of Glencoe, 1960), p. 22-23.





The inevitable comptroller-type functions arising from developments in the field of unification and from budgetary pressures are presently being performed on a good-will and cooperation basis by a loose confederation of the Office of the Secretary of the Navy and the Office of the Chief of Naval Operations (Deputy Chief of Naval Operations for Logistics and Chief of the General Planning Group), and the Office of Budget and Reports.

.....  
The sum total of Naval Effort is expressed in terms of major programs, and the practical expression of these Naval programs is found in the current basic Naval Establishment Plan.

.....  
The programs which support the operating forces and maintain the prescribed mobilization base have no other purpose or justification than to maintain the U. S. Naval forces in the prescribed degree of readiness, to enable them to effectively undertake D-Day missions, and to expand in accordance with prescribed phasing thereafter.

From . . . the above, it is apparent that the purpose, scope and tempo of every Navy program stem from purely military needs; therefore, only the Chief of Naval Operations should prescribe the degree of emphasis to be placed on each and every program, and discretion in this matter should not be vested elsewhere. [Note here the misconception of the term "Comptroller," and the inchoate fear of "control" from without being imposed.]

The accomplishment of every logistic program is a function of dollar expenditure and dollar management. Therefore, discretion in the matter of dollar management should be vested in a military officer subordinate to the Chief of Naval Operations, and, himself, qualified for unrestricted command.

[The statement] . . . above does not and is not intended to interfere with the overriding authority of civilian control as vested in the Secretary of the Navy, nor does it cut across those technical functions properly vested in the technical Bureaus. It does, however, and is intended to, insure against the diverting of funds to projects and programs not in consonance with the Chief of Naval Operations' approved military programs and not in consonance with the most efficient and economical support of those military programs.

The comptroller functions should include fiscal management, budget management, statistical control and management engineering. . . . the integration of these activities must be toward the end of the greatest efficiency and economy in support of the military programs, and therefore, should be coordinated by the command echelon in the person of a military (line) Comptroller."<sup>18</sup>

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<sup>18</sup>U. S., Memorandum from the Chief of Naval Operations to the Secretary of the Navy, July 26, 1949. Italics mine.





Thus the struggle over implementation commenced even prior to passage of the law. The subsequent enactment of Title IV with its statutory Department of Defense comptrollership requirements caused continuing consternation among senior military officers.<sup>19</sup>

Mr. John H. Dillon, Administrative Assistant to the Secretary of the Navy substantially agreed with Admiral Denfeld's views, but in writing a rejoinder to the Denfeld letter (after Title IV was law), he proposed that since the Comptroller of the Department of Defense was by law to be one of the Assistant Secretaries, then for consistency so should be the Comptroller of the Navy. In addition he urged that the Comptroller be immediately appointed and that as soon as the appointment was effective, the Navy Fiscal Director and Office of Budget and Reports be placed under his supervision.<sup>20</sup> The Assistant Secretary of the Navy for Air, John Floberg, was then assigned the additional task as first Comptroller of the Navy on 1 June 1950, and the Director of the Office of Budget and Reports, Rear Admiral Herbert G. Hopwood was made his deputy.

The Bureaus and Departments moved exceedingly slowly in transferring proper financial management functions to the new Comptroller.

A few months after his appointment, Secretary Floberg was still receiving little cooperation in his efforts to put the new organization on a paying basis. He called all of the Chiefs of the various Navy Technical Bureaus to a special meeting in his office, and in effect, told them to

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<sup>19</sup>Interview with B. H. Dozier, Deputy Assistant Comptroller for Field Activities, February 3, 1965.

<sup>20</sup>U. S., Memorandum from the Administrative Assistant to the Secretary of the Navy, to the Secretary of the Navy, August 9, 1949.



cease and desist in their obstructionist tactics or suffer the consequences. With this show of strength, an emasculation of financial management at the outset was avoided, and the organization began to assume direction and responsibility.<sup>21</sup>

#### Summary

It was therefore recognized that the general budgeting and accounting systems of the military establishment required overhauling. Title IV laid the formal foundation for this overhauling, but considerable controversy arose over precisely where the comptroller should be placed within the organization; what his exact functions were to be; how much, if any, line authority he should have; and who (military or civilian, line or staff) should occupy the billets which were formed.

There was a wide divergence of opinion as to just how well comptrollership had been accepted and implemented. The Comptroller of the Navy in 1958, J. Sinclair Armstrong said,

I have been told that many segments of the Navy did not receive the advent of comptrollership very warmly. I think this is understandable, because the concept of comptrollership, which was taken largely from private industry, was not generally understood. I think the Navy acted wisely, and decided at the outset that comptrollership should not be forced by edict upon bureaus and field activities. It was determined, rather, that such organizations should come about largely by evolution. As in the case of private industry, the merits of controllership have had to be 'sold' to management. This has been primarily an educational effort.

At the present time, nine years after the enactment of Title IV, I think comptrollership is widely accepted in the Navy.<sup>22</sup>

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<sup>21</sup>Cassidy, interview, loc. cit.

<sup>22</sup>J. Sinclair Armstrong, "Financial Management in a Military Department," speech delivered at the Industrial College of the Armed Forces, Washington, D. C., November 6, 1958.



In spite of this highly optimistic statement, i. e., "comptrollership is widely accepted in the Navy," only four years previously the Senate Armed Services Preparedness Subcommittee had said that Title IV had not been truly implemented and in fact, had gone practically unheeded. Their reasons were:

First: The Korean War. In the overriding rush of defense preparations and execution of the war, little time could be spared to work on fiscal methods.

Second: The sheer size of the undertaking. It will be an enormous, continuing task to remodel the huge budgetary and fiscal structure built up over a period of many decades.

Third: Ignorance of the provisions of Title IV and of understanding of its intent. Common experience has shown that ignorance and misunderstanding may develop into inertia, resistance and antagonism. Unfortunately, antagonism toward Title IV did develop in some areas.<sup>23</sup>

Why this divergence of opinions? Were they based on bias, or had tremendous improvements taken place during the intervening four years? In the next chapter some of the aspects of this "antagonism," "ignorance" and "inertia" will be investigated, particularly as it applies to the role played by the Supply Corps before and during the early days of Title IV.

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<sup>23</sup>U. S. Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, op. cit., p. 2.



## CHAPTER II

### SUPPLY CORPS RELATIONSHIPS WITH NAVAL COMPTROLLER DEVELOPMENTS

#### A Penchant for Missing Golden Opportunities

The first involvement of the Supply Corps in an incident which was to have significant impact on the control of comptrollership in the Navy, and responsibilities therefore, took place at the time of the creation of the Naval Budget Officer in 1921. The Chief of the Bureau of Supplies and Accounts at this time, was Rear Admiral David Potter. In 1923 the Budget Officer was made a separate billet. It had previously been held as a collateral duty by the Chief of Naval Operations. At this time discussions were held and the consensus was that the office should be incorporated as a division of the Bureau of Supplies and Accounts. However, Admiral Potter was adamantly against this for indeterminable reasons. And as a result the office was formed within the Secretary of the Navy's organizational sphere, and with the statutory requirement that a line officer be Director of said office.<sup>1</sup> This original statutory requirement is in effect today in that the Assistant Comptroller of the Navy, Director of Budget and Reports (successor to the old Office of Budget and Reports) is still legally required by Paragraph 507 of Title 10 to be a Rear Admiral of the unrestricted line. The current incumbent is Rear Admiral Fred Bennett.

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<sup>1</sup>Interview with Norwood P. Cassidy, former Assistant Naval Comptroller for Accounting and Finance, February 10, 1945.





The next Chief of the Bureau of Supplies and Accounts to become actively involved in this area in a meaningful way was Rear Admiral William Brent Young. Admiral Young, at the urging of Secretary Forrestal, officially instigated the Grady Committee mentioned in Chapter II. Although the committee report recommended that the comptroller be placed at the Secretarial level, Young insisted that he (the comptroller) be placed within the Bureau of Supplies and Accounts.<sup>2</sup> And, as has been noted also, this opposition along with others, effectively stifled comptrollership, per se, in the Navy until 1949.

To set the stage properly for the events and discussions leading up to Title IV, it would be well to try and distill the flavor and attitude of the Supply Corps of 1948-1950.

#### Prevailing Attitudes toward Financial Management

Several of these postures have had considerable bearing on the fact that the initial (and subsequent) assignment(s) as Deputy Naval Comptroller have gone to a line Rear Admiral, and that many of the field comptroller billets have been filled by line and other staff corps officers.

In the first place, there was a general consensus on the part of line officers that Supply Officers as a whole felt that their first allegiance was to the Bureau of Supplies and Accounts, and second, to their immediate commanding officers. This led to the conclusion by many commanding officers that this Bureau was bypassing their command authority by dealing directly on matters of supply and finance, either covertly or overtly, with the Supply Officer attached to the command.<sup>3</sup> This image

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<sup>2</sup>Ibid.

<sup>3</sup>Ibid.



of the Supply Corps naturally did not contribute to a commander's idea of a closely-knit team effort on the part of his department heads. Historically then the Bureau had exerted great influence over Supply Corps Officers in the field. Secondly, the Supply Corps itself was a "house divided," in that fiscal billets and those officers filling them were, consciously or subconsciously, considered as "poor relations," and such billets were to be assiduously avoided if one aspired to promotion to senior ranks. In short, fiscal billets were not considered the best selection billets.<sup>4</sup> Fiscal billets at that time were those in Disbursing Offices ashore, Navy Audit Offices, Naval Finance Offices, etc., while so-called "supply" billets were those as supply officers of ships or stations, Naval Supply Depots and Centers, Supply Demand Control Points, etc.

And lastly, the Supply Corps feared that with comptrollership, civilians would inherit many of the ashore financial jobs then available for Supply Corps officers.<sup>5</sup>

This last attitude may seem in contradiction to the general disdain in which fiscal billets were held. However to apply Wildavsky's "Strategies" of budgetary politics,<sup>6</sup> to the military situation, regardless of how undesirable certain billets may be, the greater quantity of billets which an organization can obtain, the greater seems the organization.

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<sup>4</sup>Ibid.

<sup>5</sup>Ibid.

<sup>6</sup>Aaron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown, and Company, 1964), pp. 111-112.



## The Struggle for Power

In the interim period from the passage of Public Law 216 in August of 1949, to the appointment of a Naval Comptroller in June of 1950, there began a power struggle within the Navy, not only as to what the functions of the Naval Comptroller, his staff and field activities would be, but also who would fill these positions. It was really a three-way struggle between line, staff (Supply) and civilian (career civil service).<sup>7</sup> Understandably, there are very few written records of the discussions which took place.

However, Admiral Denfeld, a few days prior to passage of the law, communicated to the Secretary of the Navy:

. . . that the Comptroller [Note: not the Deputy but the Comptroller] be an officer qualified for unrestricted command, and separately am prepared to recommend that the Comptroller hold the rank of Vice Admiral and occupy a position in the organizational structure of the Navy comparable to that of a Deputy Chief of Naval Operations.

I further recommend that:

- (a) the Comptroller's Deputy for Budgetary Affairs be a Naval Officer
- (b) the Deputies for Fiscal Affairs and Management Engineering be either Naval Officers or civilians, the appointments being predicated solely on individual qualifications.<sup>8</sup>

It is interesting to speculate as to why mention of "individual qualifications" is mentioned only with regard to the Deputies for Fiscal Affairs and Management Engineering. Perhaps, because it was only on these particular appointments that the Chief of Naval Operations felt it was not

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<sup>7</sup>Interview with Fred Demeret, Assistant Director of the Progress Reports, and Statistics Division of the Office of the Naval Comptroller, December 29, 1964.

<sup>8</sup>U. S., Memorandum from the Chief of Naval Operations to the Secretary of the Navy, July 26, 1949. Italics mine.



necessary for him to have final say as to who should fill them? Possibly it was because at this time there were very few Vice Admirals qualified for unrestricted command who could also qualify in the broadest meaning of the word, as Comptroller of the Navy.

However, since by Title IV an Assistant Secretary of Defense would be the Department of Defense Comptroller, the Secretary of the Navy at the insistence of Mr. Dillon<sup>9</sup> decided that so too should the Comptroller of the Navy be an Assistant, or Under Secretary. But the struggle continued with regard to the Deputy Comptroller.

The Assistant Secretary of the Navy for Air was to be given the collateral duty as Comptroller. Prior to his appointment, he had the mission of drawing up the Charter of the Comptroller of the Navy, and determining who would fill the post of Deputy Comptroller.

A new Chief of Naval Operations, Admiral Forrest Sherman, took up the Denfeld cudgel when he wrote that "the best interests of the Naval Establishment require that if the Comptroller be a civilian, his principle deputy should be a professional Naval Officer of the Line qualified for unrestricted command."<sup>10</sup>

The arguments continued in writing over the exact wording of the Charter, and in conference over who should be appointed Deputy Comptroller. The Supply Corps at this time was really dealing from a position of

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<sup>9</sup>U. S., Memorandum from the Administrative Assistant to the Secretary of the Navy, August 9, 1949.

<sup>10</sup>U. S., Memorandum from the Chief of Naval Operations to the Assistant Secretary of the Navy for Air, Duties and Responsibilities of the Office of the Comptroller of the Navy, April 20, 1950.





weakness due to the prevailing attitudes and internal dissension mentioned previously.

#### A Decision Is Made

On 1 June 1950, Secretary of the Navy Francis P. Matthews, officially appointed John F. Floberg, the Assistant Secretary of the Navy for Air as Comptroller, and named Norwood P. Cassidy, the incumbent Fiscal Director, as Deputy Comptroller. Apparently, intensive arguments were interposed in regard to this latter appointment to such a degree that Mr. Cassidy's appointment was rescinded within 48 hours and a line Rear Admiral, Herbert G. Hopwood, was made Deputy in his stead.<sup>11</sup> The precedent of this line appointment has remained in effect.

As Vice Admiral C. W. Fox (SC) USN. Ret., who was Chief of the Bureau of Supplies and Accounts at the time, wrote, "The Chief of Naval Operations decided the Comptrollership of the Navy to be a command function hence it should not be delegated to a staff corps. I might add that with possibly one exception, the other chiefs of bureaus supported the decision of the Chief of Naval Operations."<sup>12</sup>

While similarly, the highest ranking Supply Corps Officer on active duty at the time, Vice Admiral E. D. Foster, said:

The reason inevitably given for making the top comptroller job a line billet was . . . that it (Comptrollership) was a command function. This I assume was based on the premise that he who holds the purse strings controls the function, including operations. If this maxim were here applicable assigning it to the Supply Corps would be 'putting the cart before the horse.'<sup>13</sup>

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<sup>11</sup>Personal interview with B. H. Dozier, Deputy Assistant Controller for Field Activities, February 3, 1965.

<sup>12</sup>Letter from Vice Admiral (Ret.) C. W. Fox (SC) USN, January 1, 1965.

<sup>13</sup>Letter from Vice Admiral (Ret.) E. D. Foster (SC) USN, January 4, 1965.



The arguments advanced pro and con over the above point will be examined more fully in Chapter V.

After these two aforementioned appointments had been made, the Comptroller's organizational structure began to be formed. First, the core of the organization was created by assigning, in toto, the Office of Budget and Reports and the Office of Fiscal Director to the supervision of the Comptroller. And slowly the additional functional areas which constitute Naval Comptrollership today were pulled together in the Naval Comptroller's organization. But not without opposition! As has been noted before, at the outset, Secretary Floberg had his problems with the Bureau Chiefs, and as late as 1954, the Bureau of Supplies and Accounts was "dragging its feet" to such an extent over the transfer of certain disbursing and accounting functions, that the Chief of the Bureau, Rear Admiral Murray L. Royar, in a showdown with the Comptroller, Thomas Gates, was relieved.<sup>14</sup>

As an example of how sensitive this functional transfer area was, I will quote the following as an indication of efforts that were made to soften the blow:

I have heard some Supply Corps Officers express the feeling that the law [Title IV] went too far and that accounting responsibility, other than the establishment of basic policy, should have been left with the Bureau of Supplies and Accounts. The law itself, however, as well as the intent of the law, as expressed in the hearings and the committee reports made it clear what the Congress expected the Department to establish and to accomplish.

Accordingly, beginning in 1950, various accounting and audit functions carried on by the Bureau of Supplies and Accounts have been transferred to the Office of the Comptroller. The Cost Inspection Service, now known as the Contract Audit Division of the Comptroller's Office, was the last sizable function to be transferred.

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<sup>14</sup>Cassidy, interview, loc. cit.



Now another transfer of management responsibility is imminent and will soon be accomplished. For some time it has been apparent that management responsibility for the Navy Regional Accounting Office should be lodged at the Secretarial level under the Office of the Comptroller.

The Navy Regional Accounting Offices provide, on an area basis, an accounting service for the various bureaus and other components of the Navy as well as the Office of the Comptroller. In doing this, they carry out the technical responsibility of the Office of the Comptroller.

I feel, as do the Secretary and the Under Secretary, that management control of the Navy Regional Accounting Offices can be improved by placing authority and direction over these offices under the Office of the Comptroller. In this way, the Navy-wide service of the Navy Regional Accounting Offices can be more closely tied in with the requirements of the other financial management functions, such as budgeting and progress reporting, which have made extensive use this past year of the service of the Navy Regional Accounting Offices, particularly in the area of expenditures.

Arrangements for the transfer of management responsibility of the Navy Regional Accounting Offices are presently being worked out between our office, the Comptroller's Office, and the Bureau of Supplies and Accounts, working under the guidance of the Under Secretary. There will also be transferred the Navy Accounts Disbursing Offices, the Navy Officers' Accounts Office, and the Navy Finance Center.<sup>15</sup>

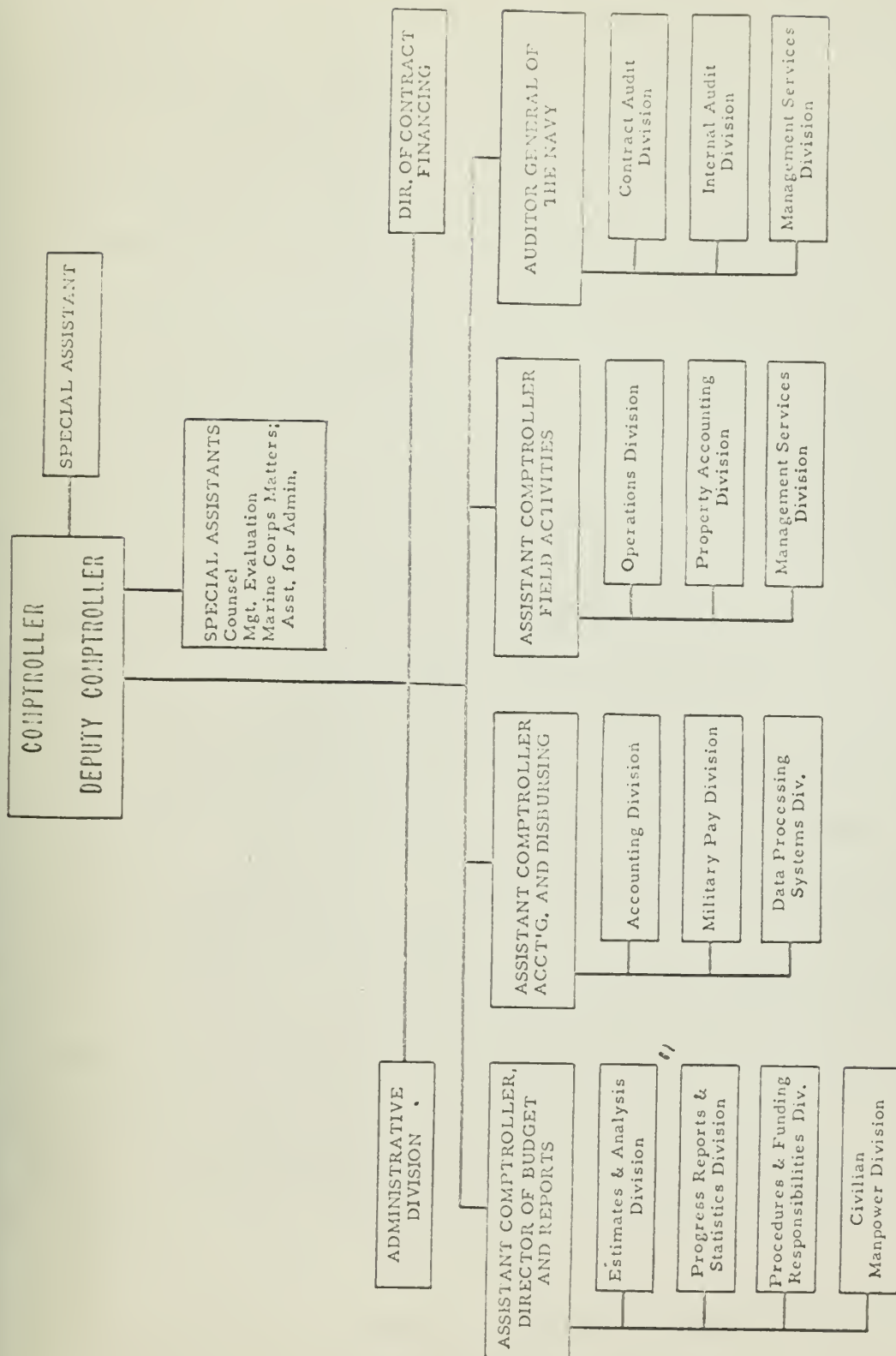
As these organizational changes occurred and the Bureau of Supplies and Accounts was steadily relieved of its Navy-wide financial responsibilities, it would perhaps now be appropriate to change the title of this Bureau to simply, "The Bureau of Supplies."

And so the organization has progressed to that shown in Illustration 3-1. The six top management billets are assigned as follows: Comptroller of the Navy--civilian; Deputy Comptroller--line flag officer; Assistant Comptroller, Director of Budget and Reports--line flag officer; Assistant Comptroller, Accounting and Disbursing--civilian; Assistant

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<sup>15</sup>J. Sinclair Armstrong, "Financial Management in a Military Department," Speech delivered at the Industrial College of the Armed Forces, Washington, D. C., November 6, 1958.









Comptroller, Field Activities--Supply Corps captain; and Auditor General of the Navy--Supply Corps flag officer or captain.

It is worthy to note here that despite shifts in organization, rearrangement of functions, etc., basically and traditionally, billet assignments have followed the precedents set years ago. For example, the Assistant Comptroller, Director of Budget and Reports evolved from the old Office of Budget and Reports, and the director has remained a line rear admiral; the Assistant Comptroller, Accounting and Disbursing evolved from the old Office of the Fiscal Director, and the head has remained a civilian; the Assistant Comptroller Field Activities consolidates Naval Comptroller field activities (less audit offices), all of which had previously been under the Bureau of Supplies and Accounts and each of which is still manned by Supply Corps Officers, and this Assistant Comptroller is a Supply Corps Officer. And finally the Auditor General of the Navy who takes charge of internal and contract auditing which, again--to a large degree--had been under the Bureau of Supplies and Accounts, particularly with regard to the contract audit area, ergo--another Supply Corps assignment.

If then, one does not wish to disturb traditions, only newly created offices, such as many of those in the field and that of Deputy Comptroller remain over which arguments may be advanced as to whether the Navy's financial management effort is best served by assigning these billets to Supply Corps officers or to a combination of line, civilian, Supply Corps or other staff officers.

Therefore it seems that a lack of initiative and cooperation in the early days cost the Bureau of Supplies dearly. If it desires to recoup, it should become more creative and innovative in attempts to



solve both its, and line mangement's problems.

Prior to a discussion of these points, however, it would be valuable to examine in some detail the Charter of the Naval Comptroller as it exists today, and try to interpret and clarify some of its more obscure areas. This will be done in the next chapter.



### CHAPTER III

#### NAVY COMPTROLLERSHIP: LINE OR STAFF FUNCTION?

The primary purpose of this chapter is to establish the foundation and basic precepts upon which will be erected the discussions, arguments and conclusions ensuing in Chapters V and VI. Some of the material included in this chapter has been touched upon previously, most has not, but it remains necessary to consolidate the essential functions, and the specific and general ideas incorporated in the Charter of the Comptroller of the Navy, and Navy Comptroller Manual.

#### Statutory Provisions

The basic authority to establish the office of Comptroller of the Navy is contained in Title IV of Public Law 216, Section 420 (b):

There is hereby established in each of the three military departments a Comptroller of the Army, a Comptroller of the Navy, or a Comptroller of the Air Force, as appropriate in the department concerned. There shall, in each military department, also be a Deputy Comptroller. Subject to the authority of the respective departmental secretaries, the Comptroller of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments. . . . The Secretaries of the military departments may in their discretion appoint either civilian or military personnel as comptrollers of the military departments.

Where the departmental comptroller is not a civilian, the Secretary of the department concerned shall appoint a civilian as Deputy Comptroller.<sup>1</sup>

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<sup>1</sup>U. S., Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 1st Sess., 1949, Title IV, Section 420 (b).



So, the initial statutory requirement gives wide prerogative to the service secretaries insofar as the appointment of military or civilian personnel to the job of comptroller and deputy. Really, all the law boils down to is that one of the two appointees must be a civilian. As far as the legislative branch is concerned, the military appointee (if there is one) in the case of the Navy could be a member of the Nurse Corps if she had the requisite professional qualifications.

There are no follow-on requirements as to personnel qualifications, either professional or military, in the Charter of the Comptroller of the Navy, or the Navy Comptroller Manual. Therefore, it may be concluded that nowhere are there legal restrictions to a Supply Corps Officer being appointed as Deputy, or for that matter Comptroller of the Navy. As has been stated in Chapter III, the only statutory personnel requirement for the top hierarchy of Naval Comptrollership is the one stating that a line officer shall be the Assistant Comptroller, Director of Budget and Reports.

After prescribing the general mission of the Comptroller, e. g., the areas of budget, accounting, etc., the Charter stated:

In general, the Comptroller will function in a staff capacity, except in specific cases when operations are required in the discharge of his statutory responsibilities, or by specific directive of higher authority. Examples of these exceptions are: The conduct of audits, the provision of financial assistance to defense contractors, and the performance of central and regional accounting and disbursing operations.<sup>2</sup>

Here again, the concept of "staff" is emphasized. The first Comptroller of the Navy supported this concept when, in a memorandum to the Secretary of the Navy, he wrote:

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<sup>2</sup>U. S., Department of the Navy, Office of the Comptroller, Charter of the Comptroller of the Navy, June 12, 1959, p. 1.





The mission of the Comptroller is to advise and assist the Secretary of the Navy in developing and maintaining efficiency and economy through budgetary and fiscal procedures. In general, the Comptroller functions in a staff capacity. He also conducts auditing operations considered essential to a proper discharge of his statutory responsibility.<sup>3</sup>

And again this idea is stated in more definitive terms in Financial Management in the Navy:

Comptrollership is not a line function, however. It is a staff function that serves line management in the area of financial management. Because the line official is ultimately responsible for his organization, the comptroller makes no action decisions for the organization as a whole. He may recommend action, but only the line official decides what action will be taken.

The authority of the Comptroller stems directly from command and his responsibility is to that command. This is true whether we are speaking of the Comptroller of the Navy who is directly responsible to the Secretary of the Navy or the comptroller of a field activity who is responsible to the commander of that activity.<sup>4</sup>

It has been shown that the basic functions of the military comptroller differ little from those of his civilian counterpart. It is also true that the staff relationship of the civilian controller is widely accepted.<sup>5</sup>

Heckert and Willson further support this premise with:

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<sup>3</sup>U. S., Memorandum from the Assistant Secretary of the Navy for Air to the Secretary of the Navy, September 4, 1951, enclosure (1).

<sup>4</sup>Bureau of Naval Personnel, op. cit., p. 17-18.

<sup>5</sup>See, for example, David R. Anderson and Leo A. Schmidt, Practical Comptrollership, Richard D. Irwin, Inc., Homewood, Ill.: 1961, esp. p. 15; Thornton F. Bradshaw and Charles C. Hull, Comptrollership in Modern Management, Richard D. Irwin, Inc., Chicago, 1950, pp. 6-8; and J. Hugh Jackson, The Comptroller, Harvard University Press, Cambridge, Mass., 1949, p. 53.



The controller is chiefly a staff executive whose primary function is to gather and interpret data which will be of assistance to other general and functional executives in the determination of sound policies and their successful execution.<sup>6</sup>

True, the comptroller is a decision-maker, but he is primarily an advisor to management in the area of finance. Again, it must be emphasized that he is a staff function, without line authority, except in his own department.

The function of Comptrollership is not an operation in and of itself. Comptrollers have no business of their own, yet everybody's business is their business. It is a supporting service function designed to insure the effectiveness of good business management. For as the late Secretary of Defense Charles E. Wilson said,

The concept of a controller in the business world is a man who is competent and experienced in financial matters, who compiles the financial data and analyzes the figures and presents them in a form that will assist management to the greatest degree in carrying out its responsibilities in connection with the business.<sup>7</sup>

#### Interpretation of the Laws

Now what are the responsibilities of this staff executive? The Navy Comptroller Manual states that "The Comptroller is directly responsible for budgeting, accounting, progress and statistical reporting, auditing, providing financial assistance to defense contractors and for the administrative organization structure and managerial procedures

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<sup>6</sup>Heckert and Willson, op. cit., p. 9.

<sup>7</sup>U. S. Congress, Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, op. cit., p. 115.



relating to such responsibilities . . ."<sup>8</sup> The subsequent discussion of these areas will be directed toward how these functions should be performed under the staff concept and within the framework of the original Charter concept as it has been incorporated into the Navy Comptroller Manual.

#### A. Budgeting

1. "Formulation. The Comptroller prescribes Navy-wide budget policies and procedures. [This should be only as regards correct format for efficient processing, proper times of submission, most efficient methods of allocation, i. e., only those policies and procedures which relate to the "hows" and "whens" of the process, not those relating primarily to the "whys." ] He assists the Chief of Naval Operations and the Commandant of the Marine Corps in preparing the Department of the Navy's program objectives which become the basis for the preparation of the program change requests to the Secretary of Defense. [If performed under the staff concept, it should be true assistance, not direction. The object should be to aid in proper format, and act as a collecting and coordinating agent.] He provides guidance and issues instructions to the bureaus and offices for preparation of the budget in support of the approved programs. [A proper staff function.] He reviews financial requirements and justifications for the various programs and coordinates the preparation of the Navy's budget estimates for submission, after review and approval by the Secretary of the Navy, to the Office of the Secretary of Defense, the Bureau of the Budget, and to Congress."<sup>9</sup>

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<sup>8</sup>U. S., Department of the Navy, Office of the Comptroller, Navy Comptroller Manual (Washington: U. S. Government Printing Office), Vol. I, par. 011001.

<sup>9</sup>Ibid., par. 011051.



[As long as the review of requirements and justifications is kept within the purview of the advisor, this is a staff function. For example, the analyst should not question the number of ships or aircraft needed in a particular program, but he could properly question whether the number of aircraft requested can be produced by the manufacturer during the budgetary period. If not, a recommended reduction would be in order. Analysts are not operators and should not presume to be. Another investigative area is that of duplication of requirements.]

2. "Execution. The Comptroller conducts a continuous review of the execution of approved budget plans and programs. [Perfectly proper. This is really a type of internal audit of budget execution. However, the authority should extend only to a review, with a forwarding to the appropriate line authority, accounts of any discrepancies. The Comptroller should not have authority to directly act upon his findings.] He reviews and submits apportionment requests to the Office of the Secretary of Defense and to Bureau of the Budget, and allocates apportioned and other funds to the bureaus and offices. [The allocation should be as requested by the bureaus and offices unless otherwise directed by higher line authority.] When review shows variances from the budget plan he makes such readjustments in funding through revised allocations as may be appropriate. He conducts continuous study of the appropriation structure and assigned financial responsibilities as well as of budget practices and procedures of the various bureaus and offices for the purpose of developing improvements therein."<sup>10</sup> [A responsibility inherent with the general one

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<sup>10</sup>Ibid.





of budget overseer. However, this responsibility should apply only to the external relationships of the bureaus and offices, not their internal organization or modus operandi.]

B. "Accounting. The Comptroller develops, prescribes and supervises the execution of principles, policies, and procedures to be followed in fiscal (including military and civilian pay), cost, capital and operating property and in working capital and management funds accounting throughout the Department of the Navy, whether appropriated or nonappropriated funds. (Nothing herein shall be construed as divesting the Chief of Naval Operations, the Bureaus and Offices of the Navy Department, and the Headquarters U. S. Marine Corps, of their authority and responsibility with respect to inventory control, the determination of stock levels and distribution, and the physical items of property embraced therein.) [In other words, the Comptroller should have no say as to how the money will be spent, but he will be the final authority when it comes to the decisions as to the most efficient, effective way of maintaining the books and accounts.] These accounting systems are designed to provide full disclosure of the financial results of operations to meet the requirements of both internal management and external agencies; adequate cost, obligation, expenditure, and other financial information needed for management purposes; and reliable and prompt accounting data furnished in a manner useful for preparation and support of budget estimates and in execution of the budget. [This specifically spells out, and amplifies the general needs of the first sentence of this section.] The Comptroller is responsible for the development and coordination of data processing techniques and applications to a single integrated accounting system and associated reporting systems throughout the Department of the



Navy. [This does not give the Comptroller carte blanche to probe into data processing, but only into those areas of Naval data processing which may have financial accounting applications.] He is further responsible for developing policies and procedures for industrial fund financing of industrial or commercial-type activities in order to control and account more effectively for the cost of work performed. [Again, the bookkeeping function, including the development of policies and procedures insofar as keeping track of the money is concerned.] Charters for such industrial funds must be approved by the Office of the Secretary of Defense and the Bureau of the Budget."<sup>11</sup> [Another area where the Comptroller cannot approve the establishment of funds (a line responsibility) but can only monitor them, after approval of their inception has been obtained.]

C. "Progress Reports and Statistics. The Comptroller is responsible for the overall formulation, establishment, revision, and execution of policies and procedures for the coordination and control of Navy-wide information systems as a basis for statistical and progress reporting for the Secretary of the Navy and other top management personnel in the Department of the Navy and in the Office of the Secretary of Defense, in order to enhance the utilization of available resources. [In this area, the Comptroller has been delegated full line responsibility and authority from formulation, to execution of policies and procedures.] He provides a focal point for the receipt and review of requests for Navy-wide statistical data received from the Office of the Secretary of Defense and from other Government agencies and determines the appropriate statistical

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<sup>11</sup>Ibid.



data and source to be used in preparation of an official response.

[This is a natural follow-up to the first responsibility of this section and line authority is implied with the use of the word "determine."] The Comptroller provides the mechanism for statistical clearance of information released outside the Department of the Navy to assure coordination and consistency with other data released. He coordinates statistical reporting when two or more bureaus and offices and Headquarters U. S. Marine Corps are concerned in order that a single consolidated Department of the Navy response can be completed."<sup>12</sup> [Further elaborations on the statistical focal point concept.]

D. "Auditing. The Comptroller develops principles and policies, promulgates procedures, and conducts audits. [There is a delegation of line authority in the two broad audit areas indicated hereafter.] These audits are of two types, internal audits of all activities within the Department of the Navy, and audits of the books and accounts of private firms which are actual or prospective contractors or subcontractors of the Navy. [Note: Since the preparation of this paper the contract audit function, which accounted for approximately 60% of the audit business, has been transferred to the Defense Supply Agency.]<sup>13</sup> Internal audits are designed to provide a service to management through independent and objective appraisals of controls over, and accountability for all funds, property and other assets for which the Navy is responsible."<sup>14</sup> [The

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<sup>12</sup>Ibid.

<sup>13</sup>Personal interview with Captain Frank B. Grubb (SC) USN, Assistant Comptroller for Field Activities, February 3, 1965.

<sup>14</sup>Navy Comptroller Manual, op. cit.



internal audit is a peculiar combination of line and staff; line because the authority to probe is complete, but staff in that the authority to take direct action upon the findings is limited. Recommendations should be made upon which an enlightened command should take corrective action. If such action is not forthcoming and/or there are disagreements on the recommendations, the problem must be carried on up the line chain of command until resolution is obtained. ]

E. "Financing. In coordination with the Office of the Secretary of Defense and the other military departments, the Comptroller establishes policies and procedures governing the administration of the guaranteed loan and advances payment programs which supply working capital to defense contractors for performance of supply and research contracts."<sup>15</sup> [The financing area has line authority and responsibility, but since its operations are external to pure Naval functions, the line authority is directly imposed upon civilians rather than other military.]

The Naval Comptroller's Manual lists as major functions several other areas which in the charter were originally prescribed as subfunctions. However, evidently these areas have developed through the years to the point that they realistically may now be considered as major functional areas. These are the determination of civilian manpower requirements, program analysis, and financial organization and related managerial procedures. I suggest that the first is a pure line function and the only logical reason for placing it in the Comptroller's organization is that it does involve control of resources, i. e., civilian manpower. Since determining and allocating civilian manpower can directly affect the success

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<sup>15</sup>Ibid.





or failure of line operational missions, it is difficult to correlate this reason given in the manual, "This review of civilian manpower requirements is integrated with the budget review of military personnel supplies, equipment, facilities, and other requirements to insure an optimum balance required to carry out approved programs."<sup>16</sup> A review is understandable, but analysis and allocation are incompatible with the theory that persons responsible for a program must be given the responsibility to determine the requirements for said program.

The second area, program analysis, is really a part of the budgetary process. And again if this analysis is directed at the pure costing of programs as well as an analysis of possible duplications, overlaps, and time-phasing difficulties, it is a staff function. As the Manual says, "The program analysis function is performed with the perspective of keeping top management informed not only as to current status but, also as to projected status of basic program objectives, plans, and schedules."<sup>17</sup>

The final function is the relatively simple one of developing standard organizational patterns for the various comptroller echelons.

#### Summary

It has been established that comptrollership is a staff function, a service adjunct to top management, and in this light the Charter and Manual of the Comptroller of the Navy have been examined with regard to the proper, most effective way of performing the incumbent responsibilities.

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<sup>16</sup>Ibid.

<sup>17</sup>Ibid.



The only statutory function which seems to be pure line is the one of civilian manpower allocation--all of the other responsibilities can best be attained through the essence of advice and consultation, i. e., service.

I think the future of Naval Comptrollership lies in this concept of service. The scope of this future will be examined in the following chapter.



## CHAPTER IV

### THE FUTURE OF NAVAL COMPTROLLERSHIP

Can comptrollership in the Navy founder through efforts to wield line power, in lieu of providing extensive services and utilizing a "salesmanship" approach? My experience has been that persons occupying positions regarded as "staff" generally lose management's ear when they attempt to force their ideas and advice upon the line echelons. This tendency toward "demand" rather than "advice" is an ever-present danger inherent in staff jobs. And there is only an extremely fine line separating "demand" from "advice."

With specific reference to the area of financial management, the Secretary of Defense's Advisory Committee on Fiscal Organization and Procedures stated:

Maximum effectiveness of financial management is achieved only when it is fully integrated into total management and is tied in with other aspects of management, such as effective manpower utilization, full utilization of industrial engineering techniques, and vigorous inventory management through modern merchandising methods where applicable. The financial viewpoint should be one of the factors on which policies and decisions are made. The head of each organization has the ultimate responsibility for sound financial management, but he should delegate the authority and assign the responsibility for leadership in this area to a professionally qualified member of his staff.<sup>1</sup>

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<sup>1</sup>U. S., Office of the Secretary of Defense, Advisory Committee on Fiscal Organization and Procedures, Financial Management in the Department of Defense, 1954, p. 8. Italics mine.



In general discussions with Naval Officers who have served in the comptrollership area,<sup>2</sup> the consensus (particularly, but not exclusively among line officers) seems to be that the power of comptrollership is steadily declining. And this is understandable, for the line officer is accustomed to exerting line authority; his is not normally the position of persuasion and pure assistance. Therefore when occupying such a position, thus having his natural tendencies thwarted, he would attribute this to a "decline of power within the organization."

Under the "staff/service function" premise, I contend that this "power," if, in fact, it did exist, should not have--and if this "power" is now draining out of the organization, this drain does not indicate a decline, but rather a realignment in the direction of support to top management.

A former Comptroller of the Navy indicated that a major weakness in the financial management system was not so much now the work was being performed, but more appropriately that management personnel, perhaps because of their concentration on operational matters, often did not use the financial and other information placed at their disposal.<sup>3</sup> It was his observation that, "Comptrollers have a major responsibility in this connection. Many times, management personnel simply do not know how to use the financial information that is available and the comptroller's job is to assist management in this connection. The lack of well-trained,

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<sup>2</sup>Office of the Comptroller of the Navy and Navy Graduate Financial Management Class of 1965, George Washington University, Washington, D. C. Personal interviews with selected officers. January-February, 1965.

<sup>3</sup>J. Sinclair Armstrong, "Financial Management in a Military Department," Speech delivered at the Industrial College of the Armed Forces, Washington, D. C., November 6, 1958.





effective comptrollers, able to work closely with management personnel, has undoubtedly been a factor in the slow advance in getting management to make better use of financial resources."<sup>4</sup>

So it seems that one of the primary future considerations must be to utilize comptrollership on the basis of service, not control, to Naval operational managers. This idea can only be sold by concrete demonstrations of the worth of the product, and by not demanding the acceptance of the product but by making it indispensable to real management effectiveness and efficiency. In a commercial situation this contribution can more readily be seen through increases in a corporation's profits, a portion of which can often be attributed directly to the work of the comptroller. However, in the military situation, this is not discernible. A report on financial management in the Department of Defense said, "A financial management system should not only be useful to command but should also provide assurance that limited resources will be utilized most effectively in terms of national policy. A major problem is that of attaining harmonious balance between the normal commercial concept of management with profit incentives and emphasis upon efficiency and economy, on the one hand, and the military concept of logistic adequacy, on the other."<sup>5</sup>

One area in which Naval comptrollership may demonstrate its worth is in Congressional relations. Congress can be compared to a corporate board of directors. It is to this board, that the Navy must go each year to obtain funds. Often, these appearances have proved

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<sup>4</sup>Ibid.

<sup>5</sup>U. S., Department of Defense, Financial Management in the Department of Defense; the White Report, November, 1954, p. 5.



embarrassing and even acrimonious, due to a lack of adequacy in the military presentation. Comptrollership cannot cure personalities, but it can provide the proper cost information, financial control, and financial reports which would tend to give the Congress the assurances needed to verify that the nation's military expenditures and financial requirements are being conducted in an economical, effective, business-like manner.

But again, it must be stressed that to be accepted by top management, the Comptroller must not make line management decisions, but must only help to provide the wherewithall for these decisions.

In commenting on this, one bureau comptroller conceded that some of the blame in this area rests with indecisive line officials. He pointed out, however, that under no conditions should comptrollers make such decisions. Rather, they should contribute to the decision-making process by such means as reporting and analyzing recent operations, with variances from standard, and other areas requiring corrective action, noted; and indicating different methods of reaching a goal, with supporting data supplied to assist line management in reaching a decision.

The assumption of line management's decision-making responsibility by certain comptrollers undoubtedly contributes to the continuing misconception in some quarters regarding the part played by a comptroller in the area of control. As stated in the original instruction [establishing comptrollership] and frequently in later official and unofficial writings, the comptroller does not exercise control in the sense generally associated with this term, although he does contribute to the control process in his capacity as advisor in financial management. We repeat, decision making is line management's job. The job of the comptroller is to advise.<sup>6</sup>

There is to be sure, a measure of truth applicable here from Mary Parker Follett's "Illusion of Final Responsibility,"<sup>7</sup> but this in no way

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<sup>6</sup>Bureau of Naval Personnel, op. cit., p. 31.

<sup>7</sup>Henry C. Metcalf and L. Urwick, Dynamic Administration, The Collected Papers of Mary Parker Follett (New York: Harper and Bros., 1941), pp. 159-160.



detracts from the fact that line management must be permitted to exercise that "final responsibility" at their discretion.

When charting the future course of any organization, not only must the destination be known, but likewise any rocks and shoals should be identified.

One of the rocks to be avoided, is for the comptroller to develop a keen understanding of his responsibility to management. He should not become so involved in routine performance of minimum responsibilities that he fails to understand and appreciate the broader problems of top management. He should not wait to be called on, but should exercise initiative, judgment, and a degree of salesmanship in bringing appropriate information to the attention of management. This involves looking ahead constructively in uncovering, illuminating and pursuing areas consistent with overall goals. In this way the comptroller will develop a service attitude by becoming concerned with making management's job easier and with taking some of the guesswork out of decision-making.<sup>8</sup>

A shoal to be avoided is one alluded to earlier, i. e., becoming so impressed with one's responsibilities that a posture of exclusive jurisdiction in the area of financial management begins to emerge. This assumption will lead to a resentment and resistance to financial decisions made by others, thus effectively inhibiting necessary line/staff cooperation and mutual confidence.<sup>9</sup>

With the advent of Secretary of Defense McNamara and the Assistant

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<sup>8</sup>Bureau of Naval Personnel, loc. cit.

<sup>9</sup>Ibid.



Secretary of Defense (Comptroller), Charles J. Hitch, such terms as "cost-consciousness," "Five-Year Force Structure and Financial Plan," etc. began to be commonly used and they point to a new sophistication in military financial management techniques. This is an area alone that would be valuable to investigate. But, it is enough to say that in this era of sophistication, and with the new scientific tools such as the computer, electronic data collection devices, et al, it is vitally necessary that Naval Officers in general and Supply Corps Officers in particular become proficient in the use of these tools and techniques-- and hopefully, finally become the innovators rather than the followers.

Defense Comptroller Hitch foresaw this need in 1961 when he stated, "Obviously, to carry out these tasks of financial management, new tools and techniques will have to be devised. These include the development of valid units of measurement for material, manpower, and other resources, more refined methods of costing such resources, and a system for interpreting these data for use by all functional areas of Department of Defense management. . . ."10

There is also much that can be done towards simplifying accounting procedures in order to relieve the field operator of some of the tedious details now required in the preparation of records and reports. The old complaint of "bureaucratic red tape" still has much validity. Again, this is a subject so great in scope that only a separate paper could examine it sufficiently.

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<sup>10</sup>Charles J. Hitch, a talk before the Annual National Conference of the Armed Forces Management Association, Washington, D. C., March 1, 1961.





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Some of the basic requirements for an effective system of financial management may thus be summarized:

1. It should be a single integrated system that could identify and appropriately deals with all of the varied classes of defense activities.

2. It must tie in to a good command or management structure.

3. It must reflect the needs and be directly useful to command or management.

4. It must provide the mechanism for full coordination between programming, budgeting, and financial control.

5. It must see that budgeting, funding, accounting and reporting are tied directly to the appropriation and fund structure established by the Congress.

6. It must provide for effective yet flexible financial management.

7. It must contribute directly to increased cost consciousness at all levels.

8. It must be simple and understandable.

9. It must be adaptable to peace, war, and intermediate conditions, and to rapid shifts within and between these situations, without basic overhaul and without bogging down.<sup>11</sup>

Wide ranging goals? Certainly, but they are not insurmountable.

And what is the culmination of these goals? When the Supply systems of the various military services were shown as overlapping, and wasteful, they were combined to a considerable degree with the establishment of the Defense Supply Agency. If one can accept the staff premise of comptrollership, it is not inconceivable to predict that a combining of the costing, accounting, disbursing, auditing, and perhaps even the budgeting areas, could considerably reduce duplication, and speed up the budgeting process.

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<sup>11</sup>U. S., Department of Defense, ..., pp. 5-6.



In the next and final chapter, the questions of where the Naval Supply Corps fits into this picture of comptrollership, and why, will be answered.



## CHAPTER V

### THE FUTURE OF THE SUPPLY CORPS IN NAVAL COMPTROLLERSHIP

Historically and traditionally, the Chief of the Bureau of Supplies and Accounts has been called, "The Paymaster General of the Navy," and Supply Corps officers the world-over have gone by the nickname, "Pay." As has been shown by the preceding chapters, these appellations are no longer appropriate--about the only association with pay that today's Paymaster General has, is to draw his own every other week. Again, in the preceding chapters, research into how this situation came about has been transcribed. The parameters have been prescribed and the future of Naval Comptrollership in general has been outlined. The remaining question to be examined is how can the Navy most adequately fulfill these responsibilities. The White Report on Financial Management in the Department of Defense indicates that, "the most significant needs in personnel for the financial management field are ability, adequacy, and continuity."<sup>1</sup>

#### Ability

In addition to the generally accepted abilities required of any good manager, i. e., a knowledge of human relations, leadership, intellect,

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<sup>1</sup>U. S. Department of Defense, Financial Management in the Department of Defense: the White Report, November, 1954, p. 26-A.



inner drive, etc., the financial manager must have certain technical abilities.<sup>2</sup> Investment banker Ferdinand Eberstadt, former Chairman of the War Production Board, and a major architect of the Armed Services Unification Act of 1949, in testimony before the Senate Armed Services Subcommittee, said, "The exact functions and duties of comptrollers in civilian life vary somewhat. . . . But Title IV gathers up most of these functions and puts them in one basket and puts that basket on the desk of the Comptroller of the Department of Defense."<sup>3</sup>

And in answer to a question as to whether experience in accountancy is a necessary qualification for a comptroller, he replied, "It would be very difficult for me to see how he could possibly carry it out without that experience. I believe the question is somewhat similar to asking me whether I think a knowledge of grammar is essential to a professor of English. . . . he [a comptroller] should be a man of broad experience in fiscal and accounting matters, gained, let us say, initially in civilian life and should also, through a period of preparation, have obtained some knowledge of the way matters are handled in the military."<sup>4</sup> In testimony before the same Subcommittee, then Secretary of Defense, Charles E. Wilson, ameliorated Mr. Eberstadt's statement by saying that he didn't think it was necessary for a man to be

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<sup>2</sup>U. S., Office of the Secretary of Defense, Advisory Committee on Fiscal Organization and Procedures, Financial Management in the Department of Defense, 1954, p. 9.

<sup>3</sup>U. S., Senate, Prepared by Subcommittee No. 3 of the Committee on Armed Services, Interim Report: Implementation of Title IV, National Security Act of 1949, 83rd Cong., 1st Sess., 1954, p. 17.

<sup>4</sup>Ibid.





a C.P.A. to look at the records of the Controller, was a man of good judgment, had sufficient experience and knowledge when figures meant.<sup>5</sup> Upon further questioning however, it appeared that as soon as the Controller learned the elements of defense accounting and became reasonably expert at it before taking on a job as big as Comptroller of the Department of Defense, or one of services.<sup>6</sup> However, Secretary Wilson's Advisory Committee on Fiscal Organization and Procedures strongly asserted that "One of the critical points is that the person selected for the assignment [in the field of financial management] have sufficient accounting and financial ability to do the job. The technical problems are such that only the most able persons should be permitted to work on them."

"Personnel too often have been selected on a basis other than technical ability."<sup>7</sup>

Although the present Deputy Comptroller of the Navy, Rear Admiral Morris A. Hirsch stressed the point that his job is basically one of management first and finance second, he did recognize implicitly that technical financial knowledge was also a requisite.<sup>8</sup>

It can be presumed that all senior Naval officers, whether line or staff, have equal opportunities to develop pure managerial skills, and that therefore, there is an equal percentage of good managers in

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<sup>5</sup>Ibid., p. 117.

<sup>6</sup>Ibid.

<sup>7</sup>U. S., Office of the Secretary of Defense, op. cit., pp. 9-10.

<sup>8</sup>Morris A. Hirsch, lect. delivered before the Navy Graduate Class in Financial Management at George Washington University, February 11, 1965.



both the line and the Supply Corps. Following, it soon appears that the key to the "ability" area of personnel assignment, turns on the technical skills of finance and accounting. Certainly, this combination of managerial and financial ability can be found throughout the business world, thus the Navy has a civilian source for potential comptrollers. However, it is doubtful that sufficient high-caliber financial managers could be lured into the government. This is particularly true at the field and staff level. Former Secretary of Defense Robert A. Lovett presented a strong argument for the use of military men in all comptroller positions except that of Comptroller of the Department of Defense, and Comptrollers of the three services. He emphasized that normally a professional soldier's training does not fit him for comptrollership functions, and recommended the establishment of a special corps for financial management with its own promotion potential. Mr. Lovett did recognize that there were already speciality corps in existence and specifically cited the Naval Supply Corps as an example. His argument for military comptrollers was based on two points: first, to exclude the military would brand them as untrustworthy in the handling of funds and would invite mediocrity if the exclusion were based strictly on the wearing of the uniform; and second, if the military organizations are to have responsible financial managers down the chain into the field, the chain must also lead up and the end should be the top.<sup>9</sup>

Recognizing then that positions in Naval financial management should be filled by persons that have in, some way, acquired basic technical

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<sup>9</sup>U. S., Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, op. cit., pp. 28-34.



financial review, it is obvious that the Navy would benefit most by assigning military personnel with the skills and experience. However, since the Navy does have specialty corps and designations, the overriding consideration is not simply "the best qualified man." The first consideration generally is to assign billets to a given corps, specialty, or designator; and then, hopefully, within those corps or specialties, "the best qualified man" will be found. Which corps or specialty group is best qualified to fill staff, financial billets?

Vice Admiral (retired) L. D. Foster states,

There is no doubt in my mind that comptroller assignments, from the top job down to the smallest field billet can best be handled by Supply Corps officers. They have the basic training and background best to carry out comptroller functions most effectively--the line officer doesn't. They have chosen as their life work to specialize in a field which encompasses comptroller functions--the line officers haven't. To me it's just as simple as that--the Navy officers who by training, background and inclination have specialized in this field can perform the Navy's comptroller functions most effectively. Those who neither have the background nor the inclination for this specialized prosaic duty just can't be expected to carry out these functions as can those who have.<sup>10</sup>

This theory is substantiated when one examines the fiscal operations of ships and smaller shore activities. These Naval entities do not have comptrollership organizations as such. For these cases, United States Naval Regulations, Under Duties of the Supply Officer includes:

4. Disbursing Government funds, but when there is an assistant for disbursing, [also assigns a Supply Corps Officer] the supply officer shall be relieved by that officer from responsibility for the procurement, custody, transfer, issue of, and accounting for funds. In such case, the supply officer shall exercise general supervision over and inspect the accounts for disbursing.

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<sup>10</sup>Letter from Vice Admiral (Ret.) L. D. Foster (SC) USN, January 4, 1965.



6. Accounting, which shall, where applicable include:

- (a) Allowance accounting
- (b) Cost accounting
- (c) Appropriation accounting
- (d) Property accounting
- (e) Preparation of civil payrolls<sup>11</sup>

And under the heading "Fiscal Duties As Above," the Regulations state:

Those duties of the Navy supply officer of a shore activity which pertain to disbursing and accounting, other than the accounting for stores in his own custody shall be performed when so directed by competent authority, by the head of the fiscal department, who shall be designated the fiscal officer.<sup>12</sup>

The above paragraph has been interpreted by both the Bureau of Supplies and Accounts Manual and the Naval Comptroller Manual to mean that in those shore activities too small to have a separate Comptroller's department, such duties shall be performed by the Supply Officer and he shall be called the Supply and Fiscal Officer.<sup>13</sup>

Under the above situations, it can be stated with certainty that there is no supply officer who has not served one or more tours of duty which required the acquisition and exercise of fiscal knowledge.

Again, however, there is this attitude on the part of command that to divest themselves of comptrollership would be to relinquish control of the purse strings to the staff. Past experiences of many line officers have probably accentuated this assumption.

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<sup>11</sup>U. S., Department of the Navy, United States Naval Regulations, pp. 141-142.

<sup>12</sup>Ibid., p. 142.

<sup>13</sup>U. S., Department of the Navy, Bureau of Supplies and Accounts, Bureau of Supplies and Accounts Manual (Washington: U. S. Government Printing Office), Vol. I, par. 11066.





Admiral Foster points out that "secretarily this fear is ungrounded":

The fact of my position, even when I was just a sub, and isn't, and never will be any longer, as long as the Navy's organization remains essentially as it is. The Navy Comptroller does not control the purse strings, except for his responsibility to see that appropriations and funds are accounted for and administered effectively. Funds are appropriated by the Congress in response to requests submitted by the Navy, analyzed and evaluated by the Secretary of Defense, through the Bureau of the Budget, validated by the President, and then allocated by the Navy and the D. of D. Most of these are appropriations for specific purposes, and those that are not are allocated by SecDef, SecNav, or CNO. CNO therefore can effectively exercise all the control over which either he or the Comptroller has cognizance--whether the Comptroller of the Navy is a line or supply officer. Both are Naval Officers, and each has the same responsibility to top command. Why not, therefore, assign the function to one who has been trained in it, whose background encompasses it, and who has chosen specialization in it as a career?

Basically, I have always thought that the decision to assign this duty to a line officer is inherently wrong. The reason originally given for doing so could be extended to justify a conclusion that a line officer must head the Bureau of Supplies and Accounts, a concept which I am sure is accepted as a ridiculous absurdity.<sup>14</sup>

However, it remains incumbent upon the officers in the Supply Corps to completely eradicate this fear. To accomplish this, all Supply Corps officers must first understand and practice the theory of staff relationship, and endeavor to provide service and direction, rather than demanding acceptance and proclaiming direction.

Former Secretary of Defense Wilson understood this when he stated:

. . . a comptroller of the Defense Department, the Army, Navy, and Air, or of a business, cannot function in such a way that he is trying to run the business. He does have to know what the figures mean, where they come from and what the items are that are included in the analysis so he can carry out his job understandingly.

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<sup>14</sup>Foster, loc. cit.



But he should not be allowed to be a passive observer. The duty of a controller is to place his finger on the pulse of his own command, not to be a passive figurehead. He must, in effect, be the commander of the command.

The controller must be able to make decisions and to make them by developing the command's needs, not by simply ordering it to decide what should be done in the light of those needs. He can tell anyone what the facts are and how he developed those facts, but other than make analysis and recommendations if he starts to tell them what to do as a result of this, then he is starting to try to take over the command functions and that gets him into trouble.<sup>15</sup>

Secondly, the previously discussed concept of finance as a subsidiary, "poor relations" type function to that of general supply and inventory control must be raised, for it is only through the elimination of this impression, that the most capable officers will desire duty in the financial management field. Vice Admiral Lot Ensey, a former Deputy Comptroller, made this strikingly clear when he related the difficulties he had in obtaining willing, able Supply Corps officers to serve in the comptroller organization.<sup>16</sup> The White Report further coupled this problem to that of promotional opportunity, when it alluded to the lack thereof with, "those having demonstrated ability in this field should be provided promotional opportunities within the financial management orbit."<sup>17</sup>

The most recent effort to fill this "ability" requirement in the financial management field comes from the findings of the "Coombs Board."<sup>18</sup>

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<sup>15</sup>U. S., Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, op. cit., pp. 121-123.

<sup>16</sup>Lot Ensey, talk delivered before the Navy Graduate Class in Financial Management at George Washington University, March 9, 1965.

<sup>17</sup>U. S., Department of Defense, op. cit., p. 28.

<sup>18</sup>U. S., Department of the Navy, Office of the Chief of Naval Operations, Report of a Study to Study Miller Requirements and Grade Distribution in the Subspecialty and Specialty Areas in the Navy, December 1964.



This board recommended that the controller billets at Naval Stations and Naval Air Stations, presently being filled by line officers, subsequently be filled by Supply Corps officers as follows:

The 4 billets in the various activities are financial management billets embracing the functions of accounting, auditing, budgeting, controllership and disbursing that are a part of every Supply Corps officer's professional profile. Although presently designated for unrestricted line (URL) officers, the board concluded that graduate education alone did not prepare the line officer to discharge the billet duties, nor did the controller experience prepare him for the broad managerial responsibilities inherent in those identified in Appendix N (Financial Management). The Supply Corps officer, with his business administration background coupled with graduate education, is ideally suited for assignment in those billets as a normal career billet assignment and is the category recommended to fill them.<sup>19</sup>

#### Adequacy

The second significant need for personnel in the financial management field is that there be an adequate number of well-qualified personnel to fill the requirements.

As the Coombs Board pointed out, experience by means of post-graduate training is not enough to prepare a line officer for controller duties,<sup>20</sup> and the number of line officers with previous technical financial experience acquired either in the military or prior to military service, simply is not sufficient to meet the demand. Persons with business backgrounds, coming into the Navy gravitate naturally toward the Supply Corps. This flow married with post-graduate education in business administration, not to mention military experience, has resulted in the

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<sup>19</sup>Ibid., Appendix I, p. I-2.

<sup>20</sup>Ibid., Appendix N, p. N-1.



building of a reservoir of financial management talent. The Supply Corps' reservoir has, in fact, begun to dry up, and to great part to both a lack of Supply Corps billets in the various commands and a lack of interest in which financial management is handled by the Supply Corps. The recommendations of the Coombs Board, if implemented, would solve the former problem, while the latter can be solved with emphasis on assignments coming from the more Senior Supply Corps Officers.

Evidences of this assurance and emphasis would be the future assignment of senior Supply Corps officers equally from the general supply field into financial management and vice-versa, such assignments not excluding the appointment of the Chief of the Bureau of Supplies and Accounts from those officers with predominant duty in comptrollership. On the other hand, if the Deputy Comptroller of the Navy's billet were changed from line to supply, and there is ample evidence contained in this thesis to support such a change, this would probably in itself provide the impetus needed to assure the equality of financial management with any other supply corps area.

In order to insure a future sufficiency of finance-motivated, qualified Supply Corps officers for financial management billets, there are two possibilities which should be investigated. Neither of these would require the additional financing or facilities necessitated by increases in formal post-graduate training. First, the curricula of the Naval Supply Corps School at Annapolis, Md. (a facility attended by all fledgling Supply Corps officers) could be changed so as to include more training in Naval financial management, particularly accounting, auditing and budgeting; and second, the Supply Corps could establish, again at the Supply Corps School, a special course for officers about to be assigned to





comparable to the military. It is possible that the military has been "even" in its approach to the problem of the future.

A second possibility is that the military would have a large number of officers, who would be business graduates of the nation, to serve their career in the Supply Corps. Why? Because the very essence of "business" is finance, and the young men, many of whom already have their master's degrees in business administration, are vitally interested in and have had much formal education in accounting, budgeting, etc.

The provision of a rewarding outlet for their knowledge and ambitions would raise greatly the overall levels of quality already present in the Supply Corps. And also the presence of these officers might even possibly decrease the future number which it is now anticipated must be sent through post-graduate school, with a resultant monetary and man-hour savings.

It is worthwhile at this point to note that the Cooke Board recommends that of the 699 Supply Corps billets requiring postgraduate degrees, 165 of these be in the financial management area, a number second only to general business degrees in the material support management area.<sup>21</sup>

This is a challenge which should be accepted, met and utilized. As Adm. Hirsch remarked, "You must get in on the ground floor of new ideas in order to help make them work."<sup>22</sup>

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<sup>21</sup>Ibid., Appendix I, p. I-3.

<sup>22</sup>Morris A. Hirsch, USA, before the Navy Committee on Operations in Financial Management at George Washington University, February 11, 1966.



(Cont.)

The third principal problem is one of continuity. The person in the field cannot be expected to stay in the job not remain on the assignment long enough to master it.<sup>23</sup> This problem of continuity is present because it has been looked at from the line point of view. And as has been pointed out the usual background of a line officer does not permit him to step into a comptroller job with a soundly based knowledge of what he is to do. As the Committee on Financial Management in the Department of Defense concludes, "particular effort should be made to overcome those situations peculiar to military service, such as rotation."<sup>24</sup> In the Navy, rotation periods average two to three years.

Again, it is suggested that this need of continuity can be solved with the use of adequately qualified officers. And it has been shown that the most qualified are generally in the Supply Corps. If the problem is approached from the viewpoint of qualifications, continuity is assured in use of these officers. Even with normal rotation, Supply Corps backgrounds, if developed as previously indicated, would provide for continuous comptrollership knowledge in any given billet. This could possibly be accomplished in the line, albeit at the expense of many man-hours of technical training and the creation of line comptroller specialists--an obviously unnecessary move with the proper utilization of Supply Corps talent.

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<sup>23</sup>U. S., Department of Defense, op. cit., p. 26-1.

<sup>24</sup>U. S., Office of the Secretary of Defense, op. cit., p. 10.



Summary

The evolution from the Bureau of Supplies to the Supply Department, and continuing through the present, has been a process of growth and change, and under the present leadership of the Supply Department. This is not said to downplay in any way the efforts of the past, for in the past there is considerable credit which can be given to arguments for change. However, comptrollership requires expertise and an efficient system for the management of which can only be achieved through utilization of officers who are currently, and have been, employed in staff financial pursuits, i. e., the Supply Officer.

There are no legal restrictions to the assignment of these officers into comptrollership areas (except in the case of the Director of Budget and Reports).

Although the Bureau of Supplies originally regarded financial management with suspicion--and even today senior Supply Corps officers look upon the area with mixed emotions--with open minds and concrete encouragement, a "new breed" of Supply Corps officers are ready and able to accept the challenge of comptrollership and provide the quality of leadership and ability demanded.



APPENDIX

TYPE OF SECRETARY OF DEFENSE MEMORANDUM

THE SECRETARY OF DEFENSE  
Washington

September 27, 1950

MEMORANDUM FOR THE SECRETARY OF THE ARMY  
THE SECRETARY OF THE NAVY  
THE SECRETARY OF THE AIR FORCE

SUBJECT: Comptroller Functions and Organization

Title IV of the National Security Act, as amended, reorganizes budget and fiscal management in the Department of Defense in order to promote economy and efficiency. It authorizes a Comptroller of the Department of Defense and provides that he shall be one of the Assistant Secretaries of Defense. It also establishes a Comptroller and a Deputy Comptroller in each of the three military Departments, and provides that the Secretary of each military Department, subject to the authority, direction, and control of the Secretary of Defense, shall cause budgeting, accounting, progress and statistical reporting, internal auditing, and the administrative organization structure and internal procedures relating thereto, to be organized and conducted in a manner consistent with the operations of the Office of the Department of Defense.

Effectuation of the principle of ultimate civilian control within each military Department over fiscal matters requires the designation of an Assistant Secretary, or the Under Secretary, to be responsible to his Secretary for such matters.

Pursuant to the law there has been designated an Assistant Secretary of Defense as Comptroller of the Department of Defense. To the extent not already accomplished, each military Department is requested to name an Assistant Secretary, or the Under Secretary, to be responsible for fiscal management, and to appoint a Departmental Comptroller and a Deputy Comptroller. The Assistant Secretary, or the Under Secretary, responsible for fiscal management may also be designated as Comptroller of the Department, or a higher officer may be appointed as Comptroller provided he reports directly to the Assistant Secretary, or the Under





Secretary, responsible for the fiscal management and control of the Department, shall be appointed as Deputy Comptroller. The Comptroller shall exercise the principle of accounting control over the Departmental accounts. The election of the Comptroller, Secretary, or the Under Secretary, to the Chief of Staff or Vice Chief of Staff, shall be subject to the approval of the Secretary, or the Under Secretary, respectively.

In order to ensure that the financial management activities authorized by Title IV may be implemented uniformly and in a manner consistent with the Comptroller activities of the Secretary of Defense, the Comptroller Secretary (Comptroller) of the Department of Defense and the Departmental Under Secretaries or Assistant Secretaries responsible for fiscal management in the military Departments, subject to the authority of their respective Secretaries, will exercise general supervision over all functions performed by the Comptrollers of their respective Departments, including the following:

- Implementation of legislative requirements concerning performance budgeting, working capital funds, and management funds;
- Preparation of budget estimates;
- Budget administration, including apportionments, allocation, and allotments, all within priorities established by the Secretary;
- Appropriation and fund accounting;
- Disbursing and receiving cash;
- Administration of advances and other credits relative to procurement contracts, but the power of decision on advances and other credits and the terms thereof may be reserved to the Under Secretary or Assistant Secretary responsible for procurement;
- Cost accounting;
- Accounting for all property, whether of an operating or capital nature, both in terms of physical quantities and in dollars. (This is to be distinguished from responsibilities of other designated agencies for policies relative to material control, including stock levels, procurement requirements and distribution);
- Auditing, including auditing of procurement contracts and advice to procurement authorities on accounting aspects of procurement pricing policies and procedures;
- Financial reporting;
- Statistical and progress reporting, including analysis and interpretation of reports;
- Formulation and recommendation of policies and procedures applicable to comptroller operations and organization.

These functions shall be performed whether in civil activities, whether financed by appropriated or non-appropriated funds.







The Office of the Chief Clerk of the Navy was established on 1 June 1950.  
The following individuals have served as Chief Clerk and Deputy Chief Clerk  
since that time:

	<u>From</u>	<u>To</u>
Mr. John P. Flaherty Assistant Secretary of the Navy (Adm) (11-5-49 to 7-23-53)	Nov 50	Mar 53
Mr. Charles S. Thomas Under Secretary of the Navy (8/9/53 - 8/10/53)	Aug 53	Aug 53
Mr. James H. Smith Assistant Secretary of the Navy (Adm)	Aug 53	Oct 53
Mr. Thomas B. Gates, Jr. Under Secretary of the Navy (10/53 - 3/57)	Oct 53	Oct 54
Mr. William B. Franke Assistant Secretary of the Navy (Financial Management)	Oct 54	Apr 57
Mr. J. S. Armstrong Assistant Secretary of the Navy (FM)	May 57	Jan 59
Mr. William B. Franke Under Secretary of the Navy (1/57 - 6/59)	Jan 59	Jun 59
Mr. Fred A. Bantz Under Secretary of the Navy (7/59 - 1/61)	Jun 59	Jan 61
Office of ADM(FM) reestablished Jan 61 - no incumbent		
RAm. Lot Ensey, Deputy Controller - Acctg. Compt.	Jan 61	Sep 62
Mr. V. M. Longstrech Assistant Secretary of the Navy (Adm)	Sep 62	Date









# Appendix 1

## Officers of the American Legion 2 and 3

1911 - 1961

*RAAdm. James Potter	1911 - 1913
*RAAdm. Charles Harris	1913 - 1915
*RAAdm. Joseph J. [unclear]	1915 - 1918
*RAAdm. Christopher Joy Rogers	1918 - 1920
*RAAdm. Charles Conrad	1920 - 1922
*RAAdm. Ray Spear	1922 - 1924
*RAAdm. William Brent Young	1924 - 1925
RAAdm. William Joseph Carter	1925 - 1926
*RAAdm. William Albert Bush	1926 - 1926
RAAdm. Edwin Dorsey Foster	1928 - 1929
RAAdm. Charles Mulford Fox	1929 - 1931
RAAdm. Murray Levering Royer	1931 - 1934
RAAdm. Ralph Judd Arnold	1934 - 1938
RAAdm. James William Boundy	1938 - 1961
RAAdm. John Webber Crumpacker	1961 -

\*Deceased



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